# THE PROBLEM OF THE TRANSCONTINENTAL RATE STRUCTURE

The control and operation of the railroads of the United States by the federal government for the period of the war, and possibly longer, raises many interesting questions as to the principles that will in the future be adopted in the settlement of rate controversies between different cities and districts and in the general readjustment of rate structures that have grown up under competitive railroading. The questions of social policy involved in the development of a national rate structure are of great complexity and of great delicacy from a political point of view. One may almost say that if the government retains permanent control of the railroads the way in which it handles the problem of rate readjustments will largely determine the popular attitude toward the whole experiment.

Among the many rate structures that have developed in the United States under the régime of private railroading none has been so much discussed in recent years as the transcontinental-rate structure. It may prove useful at this time, therefore, to present in brief compass the essential features of this interocean-rate system as it exists today. By transcontinental rates are meant rates between the territory east of the Rocky Mountains and the territory covered by the Transcontinental Freight Bureau, which extends from the Pacific east to Noria, New Mexico, 25 miles west of El Paso; Promontory Point, Utah, 25 miles west of Ogden; and Athol, Idaho, 40 miles east of Spokane. Thus these rates apply to the haul across the Rocky Mountains and the Great Basin. This territory is sparsely settled, has little local traffic, and expensive operating conditions, owing to steep grades, costly roadbed, heavy upkeep, and high fuel cost. Rates are therefore naturally high. The New York–Chicago first-class rate is 90.6 cents per 100 pounds for a basic distance of 920 miles (actual distance via the Pennsylvania lines 909 miles); the Chicago–New Orleans rate is 110 cents for a distance of 920 miles; while the

Chicago San Francisco rate is 340 cents for a distance of 2,277 miles. That is, for two and one-half times the New York–Chicago distance the rate is over three and one-half times as high. A high level of rates is to be expected and the shippers do not object to it.

The complaint comes from the intermountain region, which objects to the violation of the distance principle and the discrimination in favor of the Pacific Coast terminals, which have obtained lower rates on both east- and west-bound traffic.

Under the amendment to the Interstate Commerce law passed in 1910 the Commission has full power to deal with this perplexing problem, as all violations of the distance principle must be by its express permission. In response to a request for such permission by the carriers the Commission in 1912 divided the eastern half of the country into zones from which the rates to intermediate points could exceed the rates to the Pacific Coast by only prescribed percentages—0, 7, 15, and 25. The carriers, fearing that a raise in the coast rate would mean a loss of business, appealed the case to the courts, and in June, 1914, the Supreme Court upheld the Commission's decision. About this time the Panama Canal was opened and this made water competition more severe. The carriers asked for additional relief on Schedule C commodities (coal, canned goods, dry goods, hardware, iron and steel, oil, paper, paint, etc.). The Commission granted this relief on these low-grade commodities whose rates did not exceed 75 cents carload, or 125 or 150 cents, according to class, less than carload, from the Missouri River to points at which vessels discharge goods. Rates to nearby or back-haul territory were graded according to distance from terminal, but should not exceed terminal rate plus 75 per cent of local rate to nearest terminal, and in any case should not exceed a certain maximum to intermediate points. This maximum to intermediate points (such as Phoenix, Arizona; Reno, Nevada; and Spokane, Washington) when the fourth section was violated was not to be over 75 cents carload from the Missouri River; and to this differentials from the eastern zones might be added as follows: 15 cents from Chicago, 25 cents from Pittsburgh, and 35 cents from New York.[1] And on less than carloads commodity rates should

[1] 32 I.C.C. 611.

not be over 172 cents on articles classified as first or second class from the Missouri River and 125 cents on articles classified third or fourth class. To this Missouri River rate, differentials of 25 cents, 40 cents, and 55 cents from Chicago, Pittsburgh, and New York, respectively, could be added.[1]

When traffic through the Canal was interrupted in September, 1915, the interior cities again complained against continuance of this special relief to the terminals; and after a hearing in April, 1916, the Commission canceled this relief. The carriers then published increased rates; whereupon the shippers at the terminals protested against these higher terminal rates and the Commission suspended them until December 30, 1916. The carriers then withdrew these tariffs and filed in their places tariffs containing rates on Schedule C commodities both eastbound and westbound which were an advance of 10 cents on carload lots and 25 cents on less than carload lots. By special permission of the Commission these were allowed to go into effect December 30, 1916.

But this did not dispose of the complaints of interior points, and after several hearings the Commission's decision of June 30, 1917,[2] found that water competition was a negligible factor and rescinded permission to violate the distance principle on Schedules B and C commodities, westbound, and on barley, beans, canned goods, asphaltum, dried fruit, and wine, eastbound, from Pacific ports by rail and by water via Galveston. Articles not originating near the Atlantic Coast or not particularly affected by water competition are referred to as Schedule A items, and the Commission was of the opinion that many items in Schedule B should be transferred to Schedule A. It should be stated that items in Schedule A are entitled to no relief even when water competition is severe.

It was left to the carriers to decide whether they would raise the terminal or lower the intermediate rates. But the Commission pointed out that rates on many articles to the Pacific Coast were unreasonably low when judged by car-mile and ton-mile earnings or by similar rates previously established by the Commission. Other rates are not unreasonably low, and in such cases there is

[1] 34 I.C.C. 13, April 30, 1915. [2] 46 I.C.C. 236–89.

at no time any excuse for charging higher (unreasonable) rates to intermediate points.

The carriers have proposed tariffs canceling all less than carload commodity rates to the Pacific Coast and increasing carload commodity rates on Schedule C commodities to equal the maximum on these commodities to intermediate points. Rates on Schedule B commodities are also adjusted by the proposed tariffs to comply with the long- and short-haul clause. The Pacific terminals and shippers making extensive use of less than carload commodity rates objected very strenuously to these proposed changes. The Commission suspended permission to file tariffs containing increased rates pending hearings, which were in progress when this was written.

However, let us examine this rate structure as it exists at the present time. The eastern and central portions of the United States are divided into rate zones or groups. These zones are lettered A, B, C, D, E, F, G, H, and J. A extends west to Charleston, West Virginia, and Latrobe, Pennsylvania; B is the Pittsburgh zone; C includes western Ohio, Indiana, and the Birmingham, Alabama, district; D is the Chicago zone; E comprises territory adjacent to the Mississippi River. F is the Missouri River group. G includes western Kansas and Nebraska and eastern Colorado. H includes most of Texas and Oklahoma, while J is the Denver group.

## CLASS RATES

Class rates to the Pacific Coast grade up with distance until the maximum rates are reached, beyond which they are blanketed. This is illustrated by Table I for the Chicago, Milwaukee & St. Paul Railway.

TABLE I*

| To Stations | Miles from Chicago | Rates from A, New York | Rates from D, Chicago | Rates from F, Kansas City |
|---|---|---|---|---|
| | | First Class | First Class | First Class |
| Lind to Taunton, Wash.... | 1,970 to 2,014 | 350 | 290 | 250 |
| Ellensburg, Wash.......... | 2,078 | 365 | 328 | 288 |
| Cle Ellum, Wash.......... | 2,104 | 368 | 336 | 296 |
| Lavender, Wash†.......... | 2,111 | 370 | 339 | 299 |

* Rates are given in cents per 100 pounds.
† Beyond this point blanket rates apply.

On the Southern Pacific from El Paso to San Francisco rates are as given in Table II.

TABLE II

| To Stations | Miles from New Orleans | Rates from A, New York | Rates from D, Chicago | Rates from F, Kansas City | Rates from J, Denver |
|---|---|---|---|---|---|
| | | First Class | First Class | First Class | First Class |
| Deming, N.M. | 1,280 | 308 | 250 | 200 | 185 |
| Lordsburg, N.M. | 1,340 | 335 | 275 | 234 | 210 |
| Bowie, Ariz. | 1,390 | 335 | 275 | 245 | 210 |
| Dragoon to Maucopa | 1,424–1,591 | 350 | 290 | 250 | 210 |
| Sentinel | 1,662 | 358 | 311 | 271 | 231 |
| Yuma* | 1,756 | 368 | 338 | 298 | 258 |

* Terminal rates apply the rest of the way to California and Oregon points.

Points in Oregon and Washington are divided into zones or rate groups. For class rates the territory in western Oregon and Washington constitutes index No. 1, while the eastern parts of these states together with a few points in Idaho make up index No. 4. Index No. 3 is made up principally of small non-agency stations near the coast, while points in British Columbia are designated as index No. 2. Many individual stations have rates different from those applying to these main rate groups. Also rates apply only via definite gateways or routes, of which 226 are listed to the northwest. Table III gives an idea of class rates (western classification applying), given in cents per 100 pounds:

TABLE III

| From Group | To Index No. 1 | | To Index No. 4 | |
|---|---|---|---|---|
| | First-Class Rates | Fifth-Class Rates | First-Class Rates | Fifth-Class Rates |
| A | 370 | 190 | 350 | 167 |
| B | 360 | 185 | 320 | 157 |
| C | 350 | 180 | 305 | 152 |
| D | 340 | 175 | 280 | 147 |
| E | 330 | 168 | 280 | 143 |
| F | 300 | 160 | 250 | 133 |
| G | 300 | 160 | 250 | 133 |
| H | 340 | 175 | ........... | ........... |
| J | 260 | 140 | 240 | 120 |

Group H, constituting parts of Texas and Oklahoma, naturally takes higher rates than Group G (Kansas, Nebraska, Colorado, and Wyoming) to this territory. The New York and New England

rates are only 70 cents, or 23 per cent higher first class than rates from Kansas, although the latter is only one-half of the distance. The Denver rate is only \$1.10, or 42 per cent less, for two-fifths of the distance to the Pacific Coast. To points in the Inland Empire[1] rates from the Atlantic Coast are only 110 cents, or 46 per cent higher than from Denver, although the latter is only one-third of the distance. The rates to southern British Columbia are as a rule 5 cents higher than rates to terminals in Washington and Oregon.

Class rates to California terminals are as follows: via central and southern gateways, first class from Zone A, 370 cents; B, 360 cents; C, 350 cents; D, 340 cents; E, 330 cents; F, 300 cents; G, 280 cents; H, 280 cents; J, 260 cents. These rates from zones west to F are the same as to the northern Pacific points. Zones G, H, and J are so far west that the location of the destinations, north or south, makes a material difference.

Interior points in this territory instead of being divided into groups or zones have individual rates quoted to them, but these rates grade up with distance as explained above. The first-class rate from New York to Reno is 140 cents, or 66.6 per cent higher than the rate from Denver, although the distance is 1,810 miles, or 160 per cent greater, from New York. The New York rate to Reno is 100 cents, or 40 per cent more than the Kansas City rate for a 66 per cent greater distance. The rate to Deming, New Mexico, is 308 cents from New York and 230 cents from New Orleans, an excess of 78 cents, or 34 per cent, for an excess distance of 1,369 miles. Gallup, New Mexico, is 2,279 miles from New York and the rate is 350 cents, first class. Gallup is 691 miles from Denver and 1,049 miles from Kansas City via the Santa Fe road and the rate is 172 cents from Denver and 250 cents from Kansas City. That is, the New York rate is only 103 per cent greater than the rate from Denver for a 240 per cent longer haul, and only 40 per cent greater than from Kansas City for a 117 per cent longer haul.

To Pacific Coast points taking terminal rates the rate from New York is 370 cents; the rate from Kansas City is 300 cents; and

[1] Eastern Washington and Oregon.

the rate from Denver is 260 cents. The relative differences in these rates is shown by a comparison with the relative distances involved. From Denver to the coast is two-fifths of the distance from New York to the coast; while Kansas City is three-fifths of the distance. This zone system is so wide in scope and the differentials in rates are so small that it savors of a blanket system. East-bound class rates are the same as west-bound class rates.

### COMMODITY RATES

Commodity rates are not only the most important, but are the ones that cause most of the controversy, as it is for this class of traffic that the water carriers principally compete. Formerly not only the actual ports, but certain adjacent points, were given the same rates on the theory that the short rail-haul back should give them the benefits of water competition. But, as previously noted, the Commission in 1915 decided that only the actual ports should get the terminal rates when the distance principle was violated at intermediate points. This reduced the number of such points from 182 to the following 18: San Diego, Wilmington, East Wilmington, San Pedro, East San Pedro, San Francisco, and Oakland, California; Portland and Astoria, Oregon; Tacoma, Seattle, Aberdeen, Hoquiam, Cosmopolis, Everett, Bellingham, and South Bellingham, Washington; and Vancouver, British Columbia. However, terminal rates are published to many small adjacent stations; for when a town can show that steamships coming from the Atlantic ports actually discharge freight there it is entitled to terminal rates.[1]

Commodity rates are constantly changing in one or more of the following details: actual rates, points to or from which they apply, articles to which applicable, minimum carload weights, gateways in or by which they apply, or in other details, so that the shipper must keep in constant touch with the tariffs and their supplements.

Let us examine T.C.F.B.[2] westbound tariffs 4N and 1P effective April 16, 1917. The first section of each contains class rates.

In section 2 of 4N destinations are divided into terminal, interior coast, Columbia River, and Spokane. For instance, the

[1] See 34 I.C.C., 13.

[2] Transcontinental Freight Bureau.

rate on aluminum (minimum weight 20,000 pounds) is 165 cents per 100 pounds to the terminals from all eastern zones except H; to interior coast points is 170 cents from A to E, inclusive, and 165 cents from F, G, and J; to Columbia River points 206 cents from A, 190 cents from B and C, 177 cents from D and E, 165 cents from F, G, and J. Spokane-rate points take the same rates as Columbia River points.

As a rule rates to intermediate points get lower as the distance of the point of origin from the Atlantic increases, while a flat rate from all eastern zones applies to the terminals. But there are many exceptions to this rule. Many rates to Pacific terminals are less from the interior eastern zones than from the Atlantic Coast, and many rates to the interior western points are blanketed with the Pacific terminal rates.

Section 3 of each of these tariffs contains rates applicable on a limited list of commodities or articles—canned goods, dry goods, iron and steel, hardware and machinery, coffee, earthenware, leather, liquors, oils, named chemicals, paint, paper, soap, twine, and a few other articles. These are articles that may easily move by water, and being highly competitive, the railroads in normal times must quote their lowest rates on them. It is these articles that have caused much of the recent controversy. Destinations in 4N are classified as terminal, interior coast, and maximum, and in 1P as terminal, intermediate, note 1, and Goldfield. Applying to special articles the rates are generally lower; according to the Commission's order, there is less variation from eastern zones to interior points. Thus the rate on green coffee is 90 cents from all eastern zones to northern Pacific terminals.

On steel billets (minimum weight 80,000 pounds) rates are as follows: to terminals, 75 cents from zones A, B, and C, 65 cents from D, E, F, and G, and 50 cents from J; to interior coast points, 80 cents from A, B, and C (10 cents over Missouri River), 70 cents from D, E, F, and G, and 55 cents from J; to maximum-rate points, 110 cents from A, 100 cents from B and C, 90 cents from E, 75 cents from F, G, and J. That is, interior coast points are 5 cents and Inland Empire points 35 cents over the terminals from Johnstown and Philadelphia, which is the full differential over the Missouri

rate allowed by the Interstate Commerce Commission. To illustrate the variations in such rates let us look at the terminal rates on pipe. On cast-iron pipe (minimum weight 40,000 pounds), the rate is 75 cents from A to G, inclusive, and 65 cents from J. But on a minimum of 60,000 pounds the rate is 75 cents from A, B, and C, 65 cents from D, E, F, and G, and 55 cents from J. On wrought-iron or steel pipe (minimum weight 40,000 pounds) the rate is 75 cents from all zones, but on 80,000 pounds the minimum rate is 75 cents from A, B, and C and 65 cents from other zones, thus giving Chicago an advantage over Pittsburgh.

Sacramento, Stockton, San Jose, and Berkeley, California; Promontory Point, Utah; Reno, Nevada; Deming, New Mexico; and Bisbee, Phoenix, and Tucson, Arizona, are representative points taking intermediate commodity rates, which are higher than terminal rates as illustrated in Table IV.

TABLE IV*

| Commodity | Rates from New York | | Rates from Chicago | | Rates from Missouri River | |
|---|---|---|---|---|---|---|
| | Terminal | Intermediate | Terminal | Intermediate | Terminal | Intermediate |
| Agricultural implements 24,000 lbs.. | 125 | 156 | 125 | 134 | 125 | 125 |
| Asphalt, 60,000 lbs.. | ......... | ......... | 55 | 55 | 55 | 55 |
| Canned goods, 60,000 lbs....... | 85 | 110 | 85 | 90 | 85 | 85 |
| Structural steel, 60,000 lbs....... | 75 | 110 | 65 | 90 | 65 | 75 |
| Steel billets, 80,000 lbs.............. | 75 | 110 | 65 | 90 | 50 | 75 |
| Print paper, 40,000 lbs ............. | 85 | 110 | 85 | 90 | 85 | 85 |
| Soap, 40,000 lbs.... | 90 | 115 | 90 | 95 | 90 | 90 |
| Drygoods,40,000lbs. | 100 | 125 | 100 | 105 | 100 | 100 |
| Portland cement, 40,000 lbs....... | ......... | ......... | 55 | 55 | 50 | 50 |

* Rates given in cents per 100 pounds.

From the Missouri River the distance principle is violated on structural steel and steel billets; the intermediate rate is the 75 cents allowed by the Commission and the New York intermediate rate the full 35 cents differential. On the other commodities

included in Table IV the distance principle is not violated from the Missouri River, and on most of them the New York intermediate rate is 25 cents over the Missouri River intermediate rate.

Not only are terminal rates blanketed on many articles from a territory extending from Maine to Colorado, but intermediate commodity rates are blanketed to a wide territory, covering points as far west as Sacramento and Berkeley and as far east as Deming, New Mexico, and Promontory Point, Utah, but section 5 of 1P contains special commodity rates to named points in Arizona, New Mexico, and California and gives these sections lower rates from adjacent territory to the east.

Among the lowest rates quoted in these tariffs is the rate of 65 cents from Chicago and 75 cents from zones A, B, and C on certain classes of iron and steel goods; 53.5 cents on steel rails from the Birmingham, Alabama, district; 50 cents on iron balls from D, E, F, G, and J, to named points in Idaho and Washington; and 50 cents on brick or clay products from D, E, and F to Bend, Oregon.

The lowest rate between the point of origin and destination quoted in any of these sections applies, or if a combination using arbitraries is lower it is used. Or if a combination of locals (i.e., on the Missouri River) defeating the through rate can be found it can be used under special rule of the Commission. Such a condition is not intended, but in the complexities of the many local and through tariffs it sometimes results and is used by the shipper who is wise enough to find it.

Stations on branch lines as a rule are not included in these blanket rates, but pay the through rate to the junction point plus the local or pay the terminal rate plus the arbitrary.

However, this perplexing problem is not settled. When the war ends and the world's tonnage is replaced until it is adequate for the commerce existing at that time, canal vessels will again compete for this traffic and, assuming private management, the railroads will again have to ask for relief, i.e., permission to lower terminal rates on many commodities. Just how long this situation will continue is impossible to say. It may be one, three, or five years or even longer. The advantage of the intermountain territory may be of short duration. The Commission, however, states

that these intermediate rates should not vary, but the terminal rates should be the ones to change. That is, intermediate rates should be fair *per se*, while the strength of water competition should determine the amount of relief granted the carriers on terminal rates.

This is a very close case, but the Commission decided in favor of the intermountain region and the enforcement of the long- and short-haul on the ground that the case should be decided according to evidence of conditions existing at the time. What changes in the theory of just rates will result in the event of permanent government operation? It will be interesting, indeed, to observe what the future has in store.

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